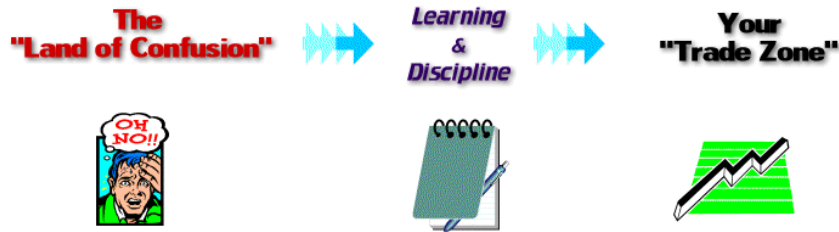


VISIT...

LANZAROTE
Caliente.COM



How long it takes you to get from the "land of confusion" through the learning curve and into your personal "trade zone" varies by individual, aptitude, effort and skill. Many people will never succeed at daytrading, looking at it like gambling and not willing to put in the hard work, determination, patience and practice it takes to be consistently successful.

A fair number will do okay, and a handful of dedicated people will be able to make a living at it. The ones who can daytrade for a living will be those who look at it like a career change, recognizing the need for training, patience with themselves, and a curiosity to learn new techniques. It is not easy to daytrade for a living. It can be done, but you have to be willing to work very hard at it. Reading the popular books is maybe 15% of what you need to do to succeed.

Most of it is market-watching, learning financials, doing daily research (IBD, Clearstation, Bigcharts, CBSSMarketwatch), learning the technical aspect of intraday trading the financial markets, learning how to short stocks, and other skills we continue to cover here at DTU. I want you folks to make it, just realize the learning curve is much much harder than the books make it out to be.



Eliminating Your Barriers to Successful Daytrading

Identifying and Getting Rid of Common Barriers Is an Ongoing Key to Trading Success:

- **Barrier #1: Lack of Disciplined Trading Attitude and Mindset of a Trader:** To win at this game, you need to follow the rules (such as keeping tight stops) and see yourself as a trader. When I first got started, I put clippings from guys like Serge Milman around the office. A photo of the ferengi trader from star trek. Anything it took to get myself thinking like a trader: to buy at one price and sell at another price for profits is what I must learn to do for a living. My success is measured by my P&L at the end of each day.
- **Barrier #2: Not investing the time and resources to do the job right.** Get at least 2 monitors, a good broker and quotefeed etc. etc. It's much cheaper in the long run. Having 4 monitors is great.
- **Barrier #3: Not being serious enough about daytrading as a profession.** Some losing traders are more like gamblers, playing \$5 low-volume stocks and trying to make a fast buck. They lose. You must take this game very seriously if you are to take money off wall street. You're in competition with professionals; you must think like and trade against other professionals to make a living at this.
- **Barrier #4: Having no trading plan or entry/exit strategy for your trades.** Make sure you have predetermined entries/exits etc...common sense but when was the last time You updated your trading journal? See the ones I developed for you in Module 1 as a starting point; develop your own.
- **Barrier #5: Physical daytrading environment not conducive for success:** We'll look at this in detail in another lesson; for now, make sure to have a quiet, well-lit uncluttered trading area to work from. Use an ergonomic keyboard, change your cursor/mouse pointer icons, experiment. Keep CNBC (and the wife/girlfriend) muted when you're in a trade, or setting up for a trade.
- **Barrier #6: Hesitancy to get in a good trade & staying in bad trades too long:** My average trade time decreased from 30 minutes-2 weeks when I started to around 10-15 minutes now. I miss on big runs up, but I like to scalp for 3/8s to 1 1/2 points profit many times a day now. If a trade is saying "buy me" then follow that signal. It's much better to miss a good trade then to force low-percentage trades, though. Marketwatching is what I do 98% of the time, 2% of the time I'm trading. Be a sniper looking for targets of opportunity.
- **Barrier #7: Not managing your physical readiness for daytrading:** No I don't just mean drink a pot of coffee, even though I guess that's ok too. Daytrading is highly demanding physically and mentally. Take breaks frequently during the day (especially during the lunch deadzone, look for stock picks then), refocus your eyes on something far away to relieve eyestrain, splash water on your face now and then, stretch, drink lots of water/take vitamins, have some carbohydrates prior to the day's trading (I always eat a microwaved baked potato or have some rice and eggs etc.), keep yourself fit by walking around the block or something

a couple of times a week, whatever works for you. Daytrading is like being an air traffic controller, always monitoring gauges and looking for signals, then responding. Refresh yourself. And, take a day off now and then. Sit out flat/choppy days. The market will be there tomorrow. Keep fit.



Getting Into Your "Trade Zone"

Successful daytraders have several things in common. Let's look at the actions you can take to get into a profitable "trade zone":

1. **Learn how to filter information quickly:** you need to develop an experienced eye for what is worth paying attention to (eg shorting the gaps up on open, playing the days gainers/losers correctly, news plays, chart & level 2 signals etc.). There is way too much financial information available; learning to quickly identify what is potentially profitable from a daytrading standpoint is an important skill to develop.
2. **Keep tiny small stops:** although I say it way too much it's the number one daytrading skill to master: taking a few small scratches so you can profit from large runs is critical. It builds confidence; eg I may take 3 1/16th point stops while trying to find a bottom before it rebounds 1/2 to 1 1/2 points; that's great. I walk away a winner. Stops should be no more than 2-3 spreads max (I usually use 2 spreads w/a micro look at the 1st outside bid/ask).
3. **Post your winning trades around your trade area:** when I got started, I'd always print out an intraday chart of my winning trades and use a green felt market to circle where I bought, where I sold and how much I made circled, such as +262 for the \$ dollars I made. It's important to keep visual reminders of your successes. Document your bad trades in your trading journal and look for common threads (like the types of stocks you played, the time of day and number of shares you traded etc.). Standardize what is winning for you.
4. **Develop daytrading goals and a trading plan you believe in:** having goals that you believe in is a powerful motivator (read Tony Robbins' stuff); now when I asked you for your daily average profit target I mean how much do you want to earn on an average day, not a mandatory daily target. Some days you shouldn't trade at all. On other monster days you should trade very aggressively, as your net risk is lower. It's important to identify your goals though, starting with a profit target, so you can budget for living expenses etc. Also develop **daytrading process goals**, such as "I will try to make between 1 and 2 trades per day for each day of the next trading week if I see a high-probability daytrade in front of me", or "I will keep a 2-spread stop maximum on my next 10 trades" or "I will update my trading journal each Saturday morning" or "I will not make a trade unless both the \$TRINQ and \$COMPQ confirm that market direction is headed my way for the next 5 trades.
5. **Share your daytrading progress with family and friends:** tell people about what you've learned, or at least that you're learning new things each day. Share your trading progress, for example you could say "I've lost some, but I'm getting better, I averaged \$160 profit on each of my last 3 trades" etc. Find supportive friends/family to share your trading activity with. Avoid toxic people.
6. **Know when to hold and when to fold and when not to trade in the first place:** some days aren't good for you to trade on, even if the market's great. Maybe you're not in a good mood. Or you have a hangover. Or you had a fight with your wife/friend/boss etc. Don't trade on those days; just watch, learn, or take a break. Regroup, perhaps take a few days off. For learning, I find going to the beach, park or library is a nice change of scenery; you may be re-reading a daytrading book but somehow reading it in a different place causes you to pay attention better. Try it.
7. **Read daytrading books often:** My favorite book for getting encouragement is Friedfertig's "Secrets of Successful Daytraders", followed by Schwager's "New Market Wizards" and Patels' "Mind of a Trader". For the mechanics of daytrading successfully, I like Tony Oz's "Stock Trading Wizard". Find books that you believe can help you, highlight them with a college-type highlighter, and translate the concepts into specific trading strategies in your personal daytrading plan.
8. **Find other daytraders in your area to network with.** A great example is "Daytraders of Orange County", now www.worldwidetraders.com; they have emails of other traders in your area of each state (or call a local broker and see who they might know). Attend occasional meetings for energy, ideas, sympathy, and learning. Daytrading can be the world's most lonely profession, so it's important for you to connect with other traders. The chatrooms are an okay social substitute, but most do not post good calls.
9. **Commit to your personal success at daytrading.** Say to yourself out loud, right now, "I am a trader". There now that wasn't so hard was it? If you laughed when you said it you need to keep saying it til ya believe it. Now say "I trade for a living. I'm serious about it". Finally, say out loud "I will be persistent and keep at it until I learn how to daytrade for a living. It might take awhile, but I will get there in time. As I improve my trading skills, I will expect to make higher profits, which I will spend on (your choice)." Clearly identify personal benefits to daytrading.
10. **Make a list of helpful daytrading behaviors for your trading style:** jot down what you do and how you feel when you're in common daytrading situations: doing research, looking for a trade, when you're in a trade, how it feels when you exit with a nice profit, how you feel when you take a stop. See what thoughts are going through your mind in each of these situations and what you can do to deal with it the best you can. It helps.



These tips should help your trading results, let me know how they work for you.

- Developing the Skill, Patience, Discipline and Attitude to Succeed at Daytrading

● **Main Points:**

- A combination of "Successful Trader Characteristics" exists that all of us need to continually work towards improving.
- If you want to succeed at trading, you have to make a personal commitment to look at things from a different perspective, and to change some of your habits and viewpoints. "If you always do what you've always done you'll always get what you've always gotten". I assume you want to gain financial independence, or at least healthy profits for all the learning and work and dues you've paid, right?
- It is not easy to change and improve one's skills, in any endeavor. A particularly challenging field like "becoming a surgeon" or "trading the financial markets" or "getting into a great marriage" takes a lot of sacrifice and hard work.
- Professionals, those of us who do this to pay the rent, have invested hundreds of hours of our time and many months of intensive effort to prepare and learn how to do this right. Months of determination and expectation of success is needed. Few will have the energy or patience to make this part of how you make your living. Again, look at it as a regular college program, but tougher. You have to commit the time and energy to it.
- **This lesson will ask you to do a self-assessment** (which you might want to re-take in a few months) to help you identify your temperament and current progress for being an effective trader. Identifying areas for improvement can help you focus your energy more effectively on those things you should strengthen. It's a journey, we're always striving to improve all of these.



How Can Each of These Help You Make Profitable Trades?

Patience:

- To not chase stock or enter bad trades out of boredom
- To let a good trade mature, not taking profit too soon, too small.

Discipline:

- To get out of bad trades quickly instead of riding them into the ground, losing or tying up your capital.
- To take healthy, regular profits out of your winning trades.

Trading Skills:

[illegible]

Trading Skills

#7. I am a good technical analyst, and can describe to others when and how to use chart patterns, and at least 3 indicators (RSI, Stochastics, MACD).

#8. I know how to scale up and fade out of positions regularly, I add to and sell off partial positions according to market momentum.

#9. My trade execution and routing skills are solid, I can enter and exit round trip positions quickly and via the right ECN/Selectnet routes.

Personal Attitude

#10. I realize that to become successful at trading, I need to take a stone cold professional non-emotional approach to the markets and am continuously working to refine my professionalism in trading skills.

#11. I fully expect to be consistently profitable at trading, given time and practice, and am not treating this like a gambling-type activity. I have committed to not repeating my mistakes.

#12. I know that it is critical for me to develop the ability to take small stops, and I am able and willing to not ride positions down "hoping they'll come back someday", or committing other basic trading errors. I expect to win.

My Score (120 Max Points Possible): _____

Traders' Self-Assessment Scoring Key:

120-100: You have all the right stuff (or at least you say you do!), you should be consistently profitable and making a healthy income from your trading activities. Be sure to maintain your successful habits so that you don't "backslide"

80-100: You're a solid trader with some useful skills that you've developed. While you seem to have excellent skills in some areas, other areas need improvement. Spend some time focusing on how to build those areas that you gave yourself low marks in. Frequently, traders will tell me that they're good in several categories but may be weak in the "Patience" department, which costs opportunity (eg taking profits too soon, while they're only 20-30% of the max available). Slowly build up the skills.

50-80: You've got a good basic start on some of the skills that are needed; however it takes awhile to get highly successful. Be sure to practice with small shares (eg 100-share lots) so that you learn the mechanics of how to trade, and you become aware of how to manage your emotions and build trading discipline over time. All is not lost - this is a good place to start from.

12-50: Have you considered a nice mutual fund? I hear Vanguard and Fidelity have some good ones, you can let them manage your money for you without worrying about all this trading stuff! Of course, I'll make more %age in a week than they they do in a year, but hey! That's their job right?

I hope this is a useful assessment for you; keep working on those areas you feel are limiting your trading profits, place reminders around your trading area, and good trading!

- What you should be doing first thing in the morning before the market opens

● **Main Points:**

- In addition to all the information we have from the original Module 1 page on "[A Day in The Life](#)", which you should take a minute to review now, there are a few other things we should consider prior to the market's open.
- The focus of this lesson will be on the mental preparation that I encourage you to get in the habit of doing prior to each new trading day.

We've already said you should do the following:

- turn on CNBC to see what the futures are doing and listen to the talking heads
- you've scanned the headlines at <http://www.cbs.marketwatch.com>, I also look at jagnotes.com to see what the latest up/downgrades and commentaries are
- you've got your computer on and all your quote/broker software is set up correctly.
- you've put potential "daily picks" in your watch portfolio to keep an eye on
- you've looked for premarket gaps on volume of at least 20K shares.
- you've already eaten something for energy and maybe have some coffee. You definitely need a large (16 oz) glass of water by your side throughout the trading day, the brain works hard and stimulates thirst during trading, water is better than coffee, though I drink both.

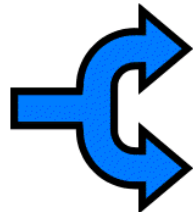


What's next?

- Your game. The mental frame of mind that you should put yourself in prior to trading. Let's see how it should work

The first thing you should be asking yourself is:

Am I Really Ready to Trade this morning?



OR



?

If you're not in the mental frame of mind to be an active trader on one particular day, don't push yourself. Take a rest, take a break. Do not feel pressured to trade.

Trade only when you can devote 100% of your mind and body to the trade; anything less will usually result in losses.

Ask yourself each morning: Have you done your research, do you have 3-5 likely picks in mind, and you're alert and ready to trade? If the answer is no, then go for a walk,

come back and do some research, and decide again whether you are going to trade that day. It's fine to take an occasional day off, in fact I recommend it.

Premarket Checklist of "Mental Things to Do" To Get Ready for Daytrading:

Here's a few 'mental reminder'-type favorites that I find helpful, hopefully some of them will benefit you as well.

1. Tell yourself that your [trading is your business opportunity](#) to provide for your family and yourself. It is not a casino. You should fully expect (not hope) to make money in my trades. For myself, I am running a small SOHO (small office/home office) business here, and I take it seriously. [I trade to pay the rent.](#)
2. Reviewing the market and sector indexes for the past 10 days, while listening to the CNBC commentary, I [start to put together a "mental map" of likely trade opportunities](#) before the market opens. I develop several "IF- THEN" scenarios.
3. [I'm watching my L2 and Time & Sales tickers for the sector lead stocks](#) to see if I can gauge the market sentiment in each sector....are they buying, chopping around, or selling?
4. I try to [find calm](#) in the frenzy of market activity. It is easy to get overwhelmed by the data out there, the key is to assess it professionally and focus on high-percentage likely trades.

Calm used to be difficult, after trading profitably and consistently the calm comes, it's more a matter of "not being surprised by anything the market does"...you look at the charts, the momentum, and in a relaxed way say to yourself, "nah - still waiting" or "almost ready" or "this is a good trade, I should pull the trigger here"....

After a while you get that sense of when the trade is a correct one, you don't think you're guessing. And if you're wrong, [your small stops save you](#) and you look for a better entry. Or a better trade somewhere else.

5. I fully realize that [my success depends on my ability to get in and get out fast](#), with small stops and larger profits. This ratio, adjusted for brokerage costs, must be maintained for me to be able to do this for a living. Tightening up the trades for the day is important. For my occasional [swing trades](#), like VISX HRL DBCC CCL T LU HET SPLS etc, I realize that my success depends on my [ability to be a decent chartist](#), and to roughly know where the market will take a stock based on oversold/overbought/volume and other technical indicators.
6. [I use analogies that are familiar and comforting to me, like golf.](#) I will see a trade like winding up to drive the ball down the fairway. What do I need to do to avoid missing my target? What bad golf and trading habits cause me to miss out? I focus on the 'zone' I need to be in, those moments of clarity and understanding that can only be reached by knowing the stocks you trade like the back of your hand.

For example, I am writing this at 3:50EST, right before the close, on Monday March 27th, 2000...I saw SPLS drop to 20 x 20 1/16th with a wall of L2 support at 20. I just bought a truckload of SPLS at 20 1/16th and fully expect to swing trade it to sell at 21 1/2 or better sometime within 10 trading days. I did this nonchalantly and am back writing this 2 minutes later. I am calm. I know I will profit. Because I trade this stock for a living, I fully expect to make lots of money. It's easy, when you know what you're doing. Notice that from a chart/TA standpoint the last thing you should do is buy a downtrending stock with no volume reversal. But, like AT&T anywhere under 50, I know that SPLS at 20 is always always a buy. So, I'm glad I'll be adding some more profit to my p&l.



Premarket Game Activity: Ready - Set - Trade!

In the fast-paced, high-stakes world of online trading, your ability to think and act fast is an asset. Before the market opens, you might want to consider using a stopwatch to 'time' various things you are doing, to get in the habit of click-on click-off time-based activities. It's a fun way to get yourself in the right frame of mind to do things quickly, and will train you to think in terms of faster paced action that is needed to daytrade.

Premarket Stop Setting:

Pick 4 stocks you will watch carefully throughout the morning trading session. For each stock, take a minute to write out it's closing price, the 5-day support and resistance levels, and the maximum stop that you will take - for example if you are trading AOL and decide to buy on strength at 67, you might want to have a 3/8 point stop.

Write this out ahead of the day's trading for the stocks you will most likely be trading, so that you will take small stops more automatically, without thinking about it during a live trade situation. You've already mapped out your trade plan and have identified your stop loss.

Also identify where you will sell it at if the trade goes your way - I like to use previous 5-day resistance areas as places I look to exit a position at. If it breaks through the resistance line, I may buy it back after it consolidates and holds.

Module Three

The Mental Game of Daytrading:

◀ PREVIOUS NEXT ▶

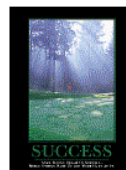
Back to
MODULE 3

- Creating a Successful Trading Environment: What to Put Near Your Monitors"

• Main Points:

- From my previous consulting work with over 137 companies worldwide (sales training, management & quality consulting etc.), I can say with certainty that your work environment, in this case your trading environment, can have a significant impact on your likelihood of success.
- In general, successful people surround themselves with a successful place to work. This includes not only the physical layout and organization of your workspace, but perhaps more importantly the people & other support resources you have around you.
- For successful trading, your tradestation and work environment could probably use some minor enhancements that will encourage and motivate you to make more effective trades.
- Some traders enjoy being in a room with 5-30 other daytraders. Personally, I like trading from a quiet living room workspace at home with plenty of space around me.
- This lesson will help you look at ergonomics, layout and other things to place around your personal computer to help you improve your trading results.

A Successful Daytrader's Work Area:



Your Personal Daytrading Workstation Area: **ERGONOMICS**

- **Multiple Monitors:** definitely get at least 2. I have 4, but you can do fine with 2 or 3. Get the largest ones you can afford, 17" minimum. Get a fast CPU (>P2350).
- Get an **Ergonomic keyboard** (non-microsoft) and **wrist rest** for your mouse pad: makes a big difference. I use a legal pad for a mousepad with gel wrist rest.
- **Chair:** get a swivel one with arm rests. Do Not get a \$20 swivel chair with no arm rests, these are bad for extended sitting times.
- Make sure to **angle the monitors** so there's no glare or reflection from outside light or internal lights, and angle the monitor faces so your neck is comfortable.
- Be sure to have adequate **ventilation** and that the room is not too hot or cold.

Your Personal Daytrading Workstation Area: **SUPPORT & ENCOURAGEMENT**

- We all know that hope, greed and fear are what causes trading losses (be like Spock, completely logical, following predetermined rules, stop losses and techniques. For fun, go to a casino. Daytrading is hard work, we're in this as a business). Here's how to keep things successful for you in terms of your mental preparation and what to have near your trade station:
- First, make sure to have something like "Tight Stops - No Exceptions" taped to at least one monitor.
- Second, use encouraging success & motivational products, posters and other reminders on the walls of your house/apartment where you can see them. See www.successories.com for ideas. Rotate these things every few months.
- Third, make copies of intraday charts that you made successful trades in (or screensnaps of your winning trade confirmations) and tape these to a board on your wall. I use the 3/16th inch thick 3' x 4' foam presentation boards available at office supply stores to mount things to at my home office.
- Fourth, by analyzing your trade journal, find out what is helping you and what is hurting you and put reminders of these things near your monitors. Examples: "Don't trade from 12 - 1" "Don't trade more than 500 shares". "Wait til the momentum starts to turn, then sell" "Small stops keep me trading - no more than 3/8 against me" etc.

Your Personal Daytrading Workstation Area: ORGANIZATION

- "A Cluttered Desk is..." well, messy and mentally frustrating. Keep your desk area as **clean** as possible. Hint for the chronically untidy (like me): at least keep your primary trading area clean of all clutter, and put all your papers on another coffee table or the floor; anywhere out of your line of sight. While trading, make sure your monitors, keyboard, clock and mouse are all that you are seeing. *Daytrading requires a lot of mental focus and concentration, make it easy on yourself by putting unnecessary papers and the like out of the way where you can't see them.*
- **Put the TV behind you** (or off to a side behind you); do not distract yourself with too much CNBC. I like watching it too, but it's silent whenever I'm about to trade (which means it's muted 80% of the time, from 9:30am til 11:30am). Putting the tv out of your line of sight helps you concentrate on your charts, L2 and trading rig like you should, not CNBC. I rarely find CNBC a useful source of realtime trading information; I may put one of their mentions (mostly Joe K's) on my watchlist for further action on a different day, but by the time CNBC talks about a stock it's usually far too late for daytrading. It used to be that a CNBC mention would move a stock 1/2 point or so, now I find the time it takes listening to CNBC vs. the payoff of a play is extremely low. It's more for watching during lunch or on choppy trading days.
- **Start over now and then:** move your desk to an adjacent wall, put mirrors on the walls, try new layouts and combinations to get one that you feel personally most comfortable with. Experimentation is useful.

Your Personal Daytrading Workstation Area: RUNNING IT LIKE A BUSINESS

- Sure, trading for a living is fun; but it's also work. Make sure to keep your daily P&L (profit and loss; how much you made or lost each day) posted on a graph near your work area.
- Remember that, like all new businesses, you may be in the red for your first year or so. That's normal; what's bad is to have steep trading losses in the thousands of dollars that turn into "investments" because the stop wasn't taken soon enough. This ties up your capital and costs you money. Look at many companies, eg Sears, S, whose stock price has been slowly cut in half over the last year. Or QCOM, which has been selling off all year in early 2000. Don't make the mistake of buying and holding for a long time if the trade violates one of your rules. Don't let winners turn into losers, waiting and hoping for a comeback or turnaround. That's not how we make our living at this; we dart in and out of positions.
- I put notes like "High-percentage daytrading for daily profits is Required, Ken! Continue to Succeed". Your mental frame of mind is so important to success as a trader; risk management and trading techniques are critical to add to your skill set over time.
- **See trading as though you just hired yourself for a job** - how would you look over your shoulder as the boss? If you're a small business owner like I've been it's automatic, you do it or nobody else does... *What measurable expectations do you have of yourself?* How will you take it seriously enough to succeed vs hoping to make it rich on lucky trades (the "lotto" approach hah). Make no mistake, this is a shark pool you're swimming in, we're all here to take food from it. To win, you must nibble more adeptly than the the others do.
- "Internal vs external locus of control"; psych 101, do you see yourself in charge of your fate, or do you blame the market, your broker, the company whose stock your trading, everything but yourself? Winners see themselves in charge of the situation, losses are temporary. Losers see themselves as victims and enjoy feeling bad, generating sympathy and blaming others. I sincerely hope you're disciplined and successful. Tony Robbins and other authors have excellent books on the topic.
- Step 1: Remove all non-trading/non business like artifacts from your trading area and workspace (or at least most of them). Perhaps keep a family photo, or a photo of a tropical place you'd like to live, or other incentive, in view as a reminder as to why you're doing this.
- Step 2: Do an ergonomic check: make sure everything is well-done. Educate yourself on the topic; if you're going to be spending hours in front of the computer like I do it's important to take care of eye and wrist strain-related products and equipment layout for your health.
- Step 3: Add the encouraging reminders and trading metrics/graphs to keep track of your activity as a trader.
- Step 4: If you want, submit a photo scan and we'll post it on the message board (or on this page) for others to see how you've arranged it. I'll do mine when time permits...

- Dealing with Trading Losses (also [see the worksheet](#) on this topic)

• Main Points:

- A string of trading losses, or a "red portfolio", can have a serious damaging effect on your ability and confidence as a trader. Let's look at how to deal with losses in a constructive way.
- LOSS PREVENTION: As we've said all along, having small predetermined stops and sticking with them is a prerequisite for your trading success.
- LOSS RECOVERY: Many good traders can trade their way back up out of trading losses, particularly with all the profitable trade opportunities that exist daily in the market. Poor traders who do not resolve to change their trading habits lose.
- EMOTIONS OF LOSS: Dealing with losses in a professional way, as a business person, helps you to avoid major problems. Small losses are a routine part of trading. Inexperienced traders take moderate to large losses, giving their money to other traders and institutions.
- EMOTIONS OF VICTORY: Celebrating small stops taken well should be a "new thing" you add to your trading system. Saying, "ok, I lost \$125 on a 1/4 point stop of 500 shares" is great. Saying "aagh I'm down \$850 on that EL0T tank, now I'm an investor" is terrible. Savor your wins, don't take losses personally.
- Let's look at a few examples and illustrations here to help out:

Small Losses = A Cost of Doing Business

You Should See Small Stops as a
NORMAL & ROUTINE Event

- Do not try to be a perfectionist and expect perfect trades; it is an imperfect game. You will not buy the exact bottoms and sell the exact tops; you just want a piece of the action.
- Every trader takes trading losses. The size of losses taken is what separates good from poor traders. Resolve to take small stops, using TA, T&S and L2 indicators.
- Small losses should be seen as the "lights and water" bill of operating your store. If you're losing a lot vs. winning you will not be able to trade for very long. Papertrade until you are good at real trades, or at least trade small shares (100-200) until you're good at it.
- You should look at the big picture, nobody likes losses, even if they're small. They are better than large losses though, it's your daily (or weekly) P&L that counts. You can do fine just making 20%-30% winning trades if your win:loss ratio is correct. Eg for every 3 1/8th point losses you take you also get 1 5/8 point win etc. (at a minimum).
- Small "cuts" are better than broken arms - learn how to take small stops quickly and re-enter the trade at a better time and price until you get it right. Maybe it's a short not a long - reverse your trading style if you think you are following the right trend.

Large Losses = Trading Mistakes

Look at Moderate/Large Losses
as a Failure to Trade with Discipline



- A large loss is a mistake, no doubt about it, no sugarcoating it. Sure, the key is "did you learn from it", but let's not let that happen in the first place, okay?
- A large loss means that the trader was not fast enough, did not hold their stop, was impacted by a gap (for overnight/swing traders), or other trading event.
- The benefit of daytrading is that you can control your trades 100%, and are not impacted by overnight news; the tradeoff being that you don't benefit from gaps that go in your direction as well. Large intraday losses are nobody's fault but the trader's.
- It helps to remember that a good trader responds, a bad trader predicts. Intraday movements are completely unpredictable, you must be early to respond to buy signals and technical indicators, the tape/T&S and other things that tell you there's more buying than selling going on in the stock for the timeframe you're trading it.
- Everyone makes mistakes, small mistakes are easier to deal with than big ones. Example: **look at your stock like you're on a date**. Going on a first date that turns out badly and then never going out with the person again is a smart "small stop". Going on a bad first date and continuing to see a person who isn't good for you and then end up marrying them hoping you can change them etc. and then divorcing two years later is a "big loss" that should've been prevented early on. Same thing with stocks - don't marry them unless their technicals are showing buying strength. speaking from an early personal experience there :-]
- Commit yourself to changing your trading habits and swallowing a small loss is much better than riding it into the ground, or a margin call, or a long-term hold, tying up valuable trading capital. Get out early, get out fast if you're not right.

Knowing when Not to Buy:

Let's look at this NOVL chart. At no time in this trading day do you see any buy signals of any kind.

Yet, people were buying and selling this stock all day long. The intraday buyers were wrong, the intraday sellers were right.

The stock opened on a downtrend, consolidating in a tight range at 20 5/16 x 3/8 for a couple of hours. Eventually, sellers win out as the price starts to drop. As soon as we made lower highs during the range at 20 1/4 x 5/16 over lunch you knew the price was going down, and could have entered a good short. Shorts covered awhile later, causing a minor bounce to 20 1/8...which was unsustainable, as the price dropped back to the low of the day. Don't buy charts like this.

If you had bought on the open for some reason, where should your stop have been placed? As soon as it traded in the 20 1/4x5/16 range.



Remember our page on only going after "high-percentage" plays, ones that look like they're winners early enough to get some play out of it. Avoid "indeterminate/can't tell" and "low-percentage" plays vs overtrading. An important part of trading for a living.